

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6094

BILL NUMBER: HB 1019

NOTE PREPARED: Nov 4, 2012

BILL AMENDED:

SUBJECT: Hoosier Business Investment Tax Credit.

FIRST AUTHOR: Rep. Messmer

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill permits the Indiana Economic Development Corporation (IEDC) to grant a Hoosier Business Investment Income Tax Credit that is entirely or partly refundable to the taxpayer or to a pass through entity. The bill specifies that the IEDC's discretion to grant a refundable credit applies to credit awards approved and investments made on or after July 1, 2013. The bill also repeals a term no longer used in the Hoosier Business Investment Tax Credit statutes.

(The introduced version of this bill was prepared by the Interim Study Committee on Economic Development.)

Effective Date: July 1, 2013.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will be required to modify the necessary tax forms, instructions, and computer software to implement the changes to this tax credit. The DOR should be able to implement these changes with their current level of resources.

Indiana Economic Development Corporation: The IEDC will be required to modify their application and authorization process to reflect the changes to this tax credit. The IEDC should be able to implement the changes with their current level of resources.

Explanation of State Revenues: *Summary-* This bill proposes changing the refundability of the Hoosier Business Investment (HBI) Tax Credit. Currently, the credit is nonrefundable. This bill authorizes the IEDC to grant all or a portion of the HBI credit as refundable to the taxpayer. This bill has an estimated annual cost between \$10.7 M and \$18.8 M, beginning in FY 2014. The credit is scheduled to expire after December 31,

2016.

The actual cost of the bill is contingent on the IEDC. They will be annually awarding the credits to applicants at their discretion. The credit can be used to offset tax liabilities for Individual Adjusted Gross Income (AGI), Corporate AGI, Financial Institutions, and Insurance Premiums Taxes. Revenue collected from those taxes are deposited in the General Fund. The revenue to the state General Fund would be reduced by the amount of the credits.

This provision is not retroactive. The investment and credit approval must occur on or after July 1, 2013, to be refundable. HBI credits awarded prior to July 1, 2013, will still be nonrefundable.

Background - The HBI credit was established to provide businesses with an incentive to create jobs, make capital investments, and provide higher wages to Indiana residents. The credit equals up to 10% of the qualified investment directly related to expanding the workforce in Indiana. The table below shows the HBI credits offered by the IEDC and the estimated Indiana nonresidential fixed investment.

| Measure (in millions) | Calendar Year | | | | | | |
|--------------------------------------------------------|---------------|--------|--------|--------|--------|--------|--------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| HBI Credits Offered | \$75.8 | \$26.4 | \$10.6 | \$3.6 | \$2.5 | \$7.1 | \$5.8 |
| Indiana Private Nonresidential Fixed Investment | 26,410 | 28,300 | 31,600 | 31,140 | 25,100 | 25,430 | 28,260 |

The IEDC offered more HBI credits for projects in 2005 and 2006 than in the following years. While HBI was created to provide incentives for capital investments, it does not follow the trend for private nonresidential fixed investments in Indiana. The differing trends could be attributed to the HBI award process. HBI credits are provided after a taxpayer submits an application to the IEDC. The IEDC evaluates the application to determine whether the taxpayer is eligible for the credit and offers an amount of HBI credit based on their evaluation.

The cost estimate for changing the refundability of the HBI credit is based on the historical amounts offered by the IEDC. The upper boundary is the mean of HBI offers between years 2005 and 2011. While the lower boundary is the mean of HBI offers after dropping the extreme observations, years 2005 and 2009. Ultimately, the cost of this bill will be determined by the application process established by the IEDC.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Indiana Economic Development Corporation.

Local Agencies Affected:

Information Sources: LSA Income Tax Database; U.S. Bureau of Economic Analysis, <http://www.bea.gov/>;

IEDC Compliance Reports.

Fiscal Analyst: Heath Holloway, 232-9867.